KPMG private markets pulse

Private market investment priorities

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Contents

Introduction

The private company investment landscape continues to undergo significant transformation, driven by technological innovation, economic volatility, and increased focus on governance, cybersecurity and sustainability.

This report examines the multifaceted considerations that shape decisions to invest in private companies, including opportunities and challenges faced by investors. It also provides insights into the landscape of private companies, investors, as well as other stakeholders.

To understand perspectives on these considerations, we conducted a survey of 301 institutional investors that invest in private companies, including private equity firms (PE), venture capital firms (VC), and asset management firms, including asset managers, hedge funds and family office (AM). The survey included key decision-makers from a variety of sectors, including healthcare, pharmaceuticals, and energy, with investment portfolios ranging from $100 million to $300 billion. The survey was conducted in the first quarter of 2025.

The results of our survey highlight how financial performance and growth potential remain foundational to investor evaluations. In a time with geopolitical tensions, inflationary pressures, and new threats to company growth and resilience, there is heightened attention to trust and transparency in company reporting.

Concurrently, the adoption of technologies such as artificial intelligence (AI), machine learning, and blockchain are redefining industries—acting as catalysts for growth while introducing new risks and ethical considerations.

At a time when optimism for growth has been on the rise, recent uncertain market conditions and an unpredictable business environment challenges traditional investment strategies, requiring companies to adapt swiftly to mitigate risks and capitalize on new opportunities.

These results are consistent with our Disruption Decoded survey of which 621 private company executives completed last summer as highlighted throughout this report.

Report authors

Tarek Ebeid
KPMG Private Leader and Partner in Charge, Northern California Audit Practice

Francois Chadwick
Partner, Tax

Shari Mager
Partner, US National Leader, Capital Markets Readiness

Sal Melilli
Partner, Audit Sector Leader, Private Enterprise

Glenn Mincey
US Private Equity Industry Leader

Executive summary

Economic uncertainty shapes investment decisions, but financial performance remains key

Investors still prioritize financial performance, future growth projections, and return on investment (ROI) when evaluating private companies. They also assess factors like business scalability, risk management strategies, and market potential. There are concerns regarding valuation, which may be exacerbated in the current economic environment.

Economic, geopolitical, and technological disruption remain the primary risks influencing investment decisions

The biggest risks influencing investment decisions include inflation, interest rates, cybersecurity threats, and a potential economic recession. Geopolitical instability, trade wars, and regulatory changes further add to investor concerns. Technological disruption presents both opportunities, such as increased efficiency and new market creation, and risks, including the need for continuous adaptation, the potential obsolescence of existing business models, and ethical and operational challenges. Uncertainty is one of the greatest challenges to business decision making as it complicates the ability to forecast future conditions and make informed investment choices.

Technology is both an industry disruptor and growth engine

Artificial Intelligence (AI) is seen as the most transformative technology, particularly related to data analytics, cybersecurity, and financial reporting. Investors expect AI, machine learning, and big data to drive investment activity over the next 18 months, with 5G, advanced connectivity, and blockchain also being key areas of focus.

Governance and cybersecurity are increasingly critical in investment strategies

Governance remains a top priority for investors, with increased emphasis on financial reporting transparency, regulatory compliance, and cybersecurity measures. More than 75% of investors have heightened their focus on governance in the past 18 months (relative to when the survey was fielded). Cybersecurity is also a growing concern with more than eight in ten (81%) saying cybersecurity has increased in importance compared to 18 months ago.

Even with the regulatory environment uncertain, sustainability is still an important consideration

Sustainability and carbon reduction efforts are increasingly important in investment decisions, with nearly two-thirds (63%) saying sustainability is more important now in their investment decisions compared to 18 months ago (August 2023). Investors recognize the long-term business advantages of strong environmental policies, consumer demand for sustainable products, and the regulatory landscape in international markets.

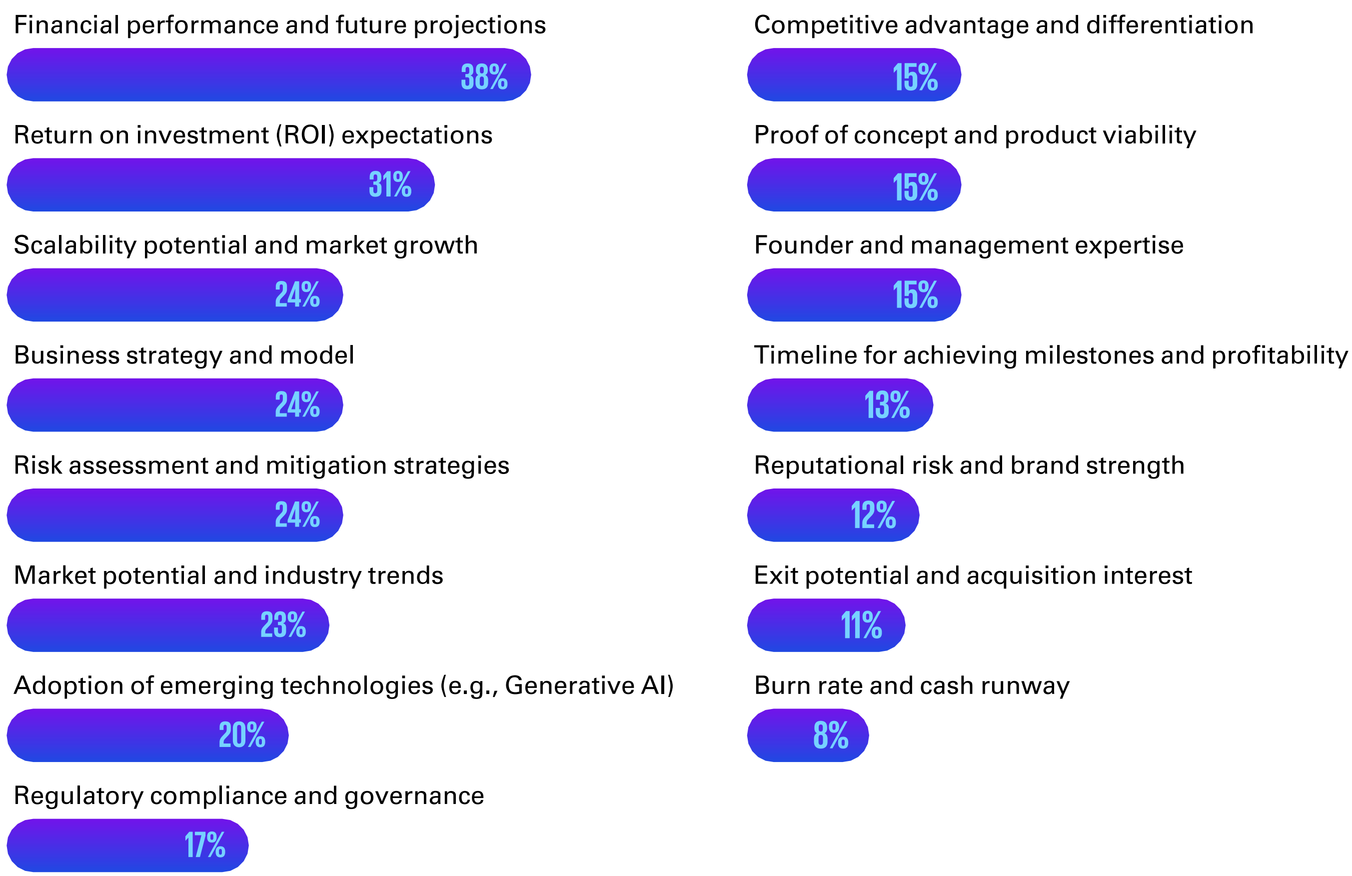
Key considerations for private company investment

Financial performance, growth potential and return on investment expectations remain fundamental considerations for investing in private companies.

But other factors are also important, such as scalability for potential market growth, business strategy and model, risk assessment and mitigation strategies, industry trends and overall market potential.

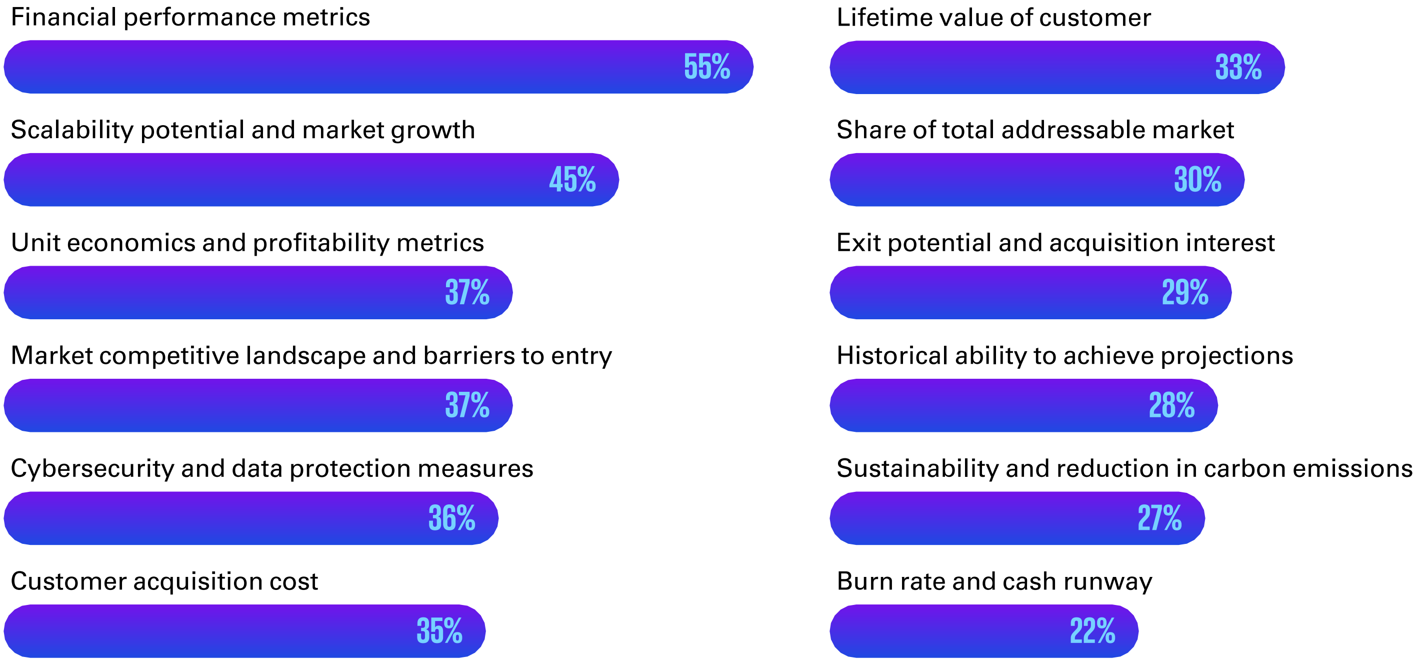
As a result, reporting metrics are of prime importance for private companies seeking to attract investors. In addition to core financial metrics, investors also consider a range of factors and metrics such as the competitive landscape, cybersecurity, and customer acquisition costs, among others.

Most important factors in a potential investment



Q17. When evaluating an investment opportunity, which factors are most important to you? Please choose up to three. (Base: Total, n=301)

Most important reporting metrics in investment decisions



Q20. Which of the following reporting metrics are important to your investment decisions? Select all that apply. (Base: Total, n=301)

Since financial performance and future projections are key drivers of investment decisions, investors are concerned about the valuation of private companies in an uncertain economic climate. When asked in an open-ended question about their biggest concerns, threats, or unknowns in private company investments, investors often cite valuation as a concern. Concerns about valuation are likely heightened in the current environment with tariffs and potential retaliatory tariffs, inflation, and high interest rates significantly impacting many sectors, leading to uncertainty about the ultimate valuation of a given company or sector. This includes:

Valuation uncertainty

Determining a reasonable valuation for private companies can be challenging due to limited financial transparency and lack of market benchmarks. This may lead to excess valuation based on overly optimistic future projections, which may not materialize.

Uncertain financial projections

Some private companies may present overly optimistic revenue forecasts, contributing to inflated valuations that may not justify the actual performance of the company. This may be exacerbated in the current economic environment where proper valuation is even more uncertain.

Impact on investment returns

Elevated valuations might cause challenges in future capital raising rounds or underperformance in the stock market if the company goes public, leading to a negative impact on projected financial returns.

Potential investment risks

Investors remain cautious about risks that could hinder economic growth, with inflation and interest rates topping the list, followed by cybersecurity risk and economic recession or slowdown.

Economic risks such as inflation and recession fears will likely be heightened in the current environment with tariffs and counter tariffs creating inflationary pressures and disrupting supply chains. This will particularly impact companies and sectors more reliant on non-domestic suppliers and those with a significant proportion of revenues and growth potential generated internationally where counter tariffs are threatened or enacted.

Primary concerns when evaluating investment opportunities

Inflation	35%
Interest rates	33%
Cybersecurity risk	27%
Economic recession or slowdown	25%
Regulatory changes	23%
Technological disruption	23%
Geopolitical instability	21%
Market volatility	20%
Supply chain disruptions	20%
Trade policies and tariffs	18%
Shifts in consumer behavior	15%
Climate change and environmental risks	14%
Talent shortage	13%

Q5. What broader market conditions are you most concerned about when evaluating investment opportunities? Please choose up to three. (Base: Total, n=301)

Assessment of key risks

For additional context, in an open-ended question about concerns related to investing in private companies, the risks most prominently mentioned were:

Cybersecurity and technological advances

Cybersecurity vulnerabilities, data breaches, and the risks associated with technological advancements (e.g., AI misuse) are frequently highlighted as major threats. Concerns include hacking, imposters stealing information, and companies struggling to keep pace with cybersecurity measures.

Economic uncertainty and inflation

Economic instability, rising inflation, an uncertain interest rate environment and geopolitical disruptions create uncertainty that make investment decisions more difficult.

Regulatory changes and political risks

Changes in laws, tax policies, regulatory oversight, and political instability were also cited as concerns in private company investment decisions.

In our summer 2024 Disruption Decoded survey, decision-makers in private companies expressed significant concerns about economic growth being impacted by cybersecurity threats, inflation, and the potential for a recession, among other factors (slowdown in technological advances and talent retention and acquisition).

In that same survey, private companies were also concerned about geopolitical issues impacting growth, including supply-chain disruptions, cybersecurity threats from state actors, and over-reliance on supplies and materials from other countries.

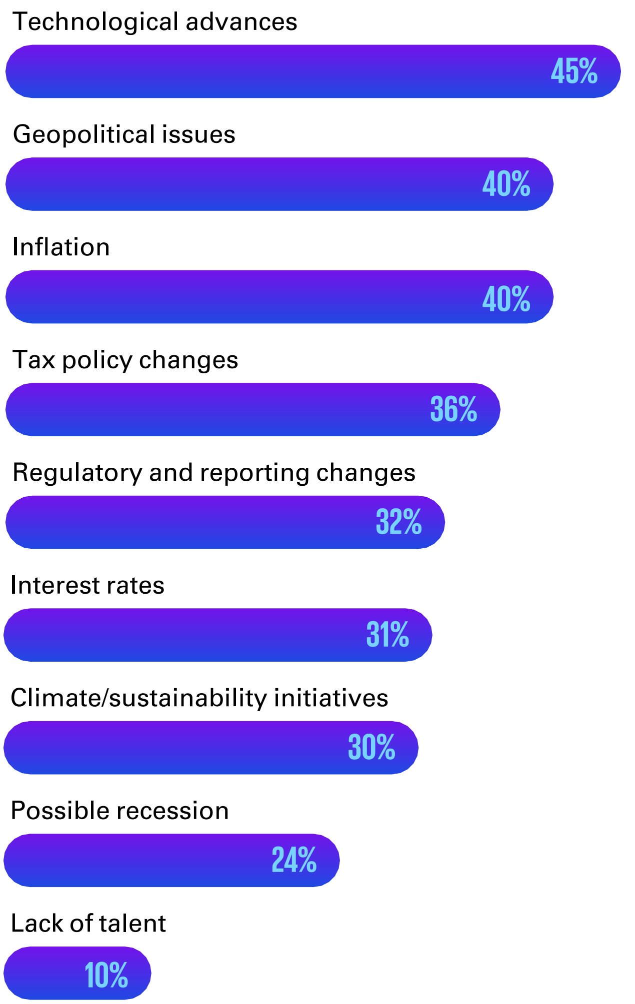
We will continue to explore changes in both economic outlook and risks in future surveys.

Technology as a disruptor and growth engine

AI is ubiquitous, and technology is seen, by far, as the main driver of future economic growth and disruption across segments

Almost half of investors believe that technological advances will have the most significant impact on economic growth over the next 18 months. Barriers to growth such as geopolitical issues and inflation are also seen by many as having a significant impact on economic growth.

Significant factors for economic growth*



*Not showing values less than 5%.

Q2. What factors do you believe will have the most significant impact on growth in the next 18 months? Please choose up to three. (Base: Total, n=301)

Diving a little deeper, investors expect AI, in particular, to transform nearly every facet of portfolio companies within the next year, with the greatest impact on data analytics and business intelligence, cybersecurity, and finance and accounting functions.

Portfolio company areas expected to implement AI technologies

Q22. In the next twelve months, in which areas do you expect your portfolio companies to implement artificial intelligence (AI) technologies? Please select all that apply. (Base: Total, n=301)

This is consistent with KPMG's previous private company survey in the summer of last year where three-fourths (75%) said AI presents significant growth opportunities and ranked it as the most important technology, compared to others. While they also indicated a longer timeline to realize the growth opportunities AI represents, most are already thinking about implementation strategies for future growth.

Compared to other sectors, the technology sector and tech-adjacent industries are seen as prime for disruption including cybersecurity, blockchain/cryptocurrency, and energy/cleantech.

Private equity and venture capitalists are the most likely to cite technology as the most disruptive industry. Private equity and asset managers are more likely to cite financial services (including FinTech) as disruptive. Private equity is more likely to mention healthcare and life sciences.

Consumer goods and services and retail/e-commerce lag behind other industries in perceived potential for disruption, according to respondents. Interestingly, pharmaceutical/ biotechnology and healthcare and life sciences (with the exception of private equity) are also seen as less likely than many other sectors to see disruption in the next 18 months. That doesn't mean they're not moving forward with new advances, just that the advances they are making are not being seen as particularly more disruptive than in the past.

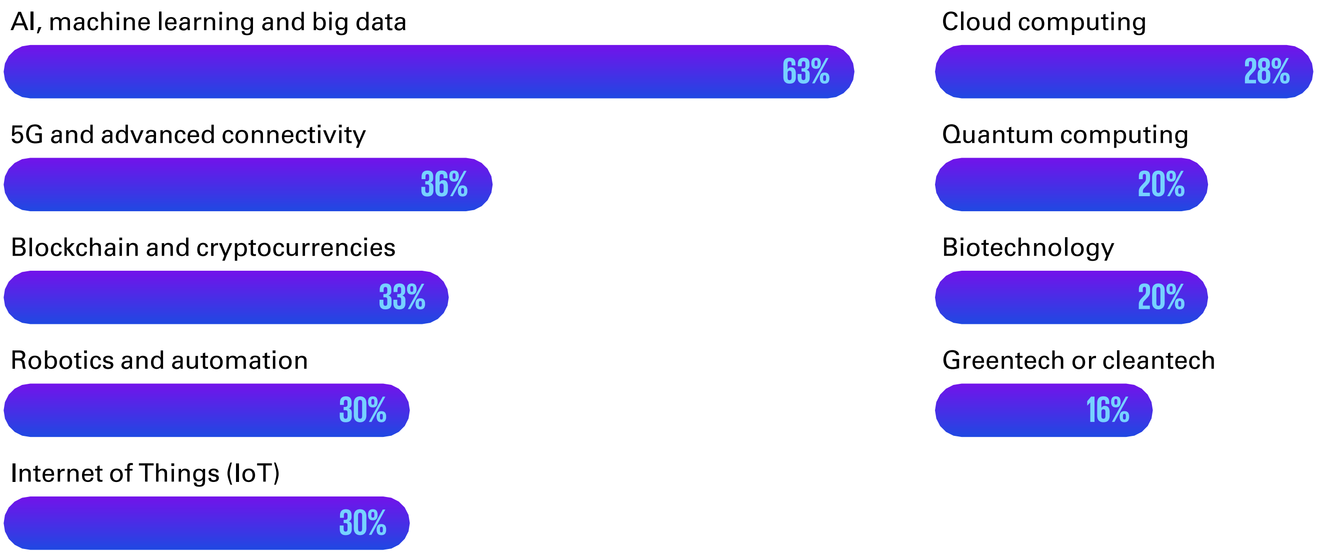
Perspectives on industry disruption

	Total 301	PE 73	VC 90	AM 125
Technology	40%	42%	48%	34%
Cybersecurity	29%	33%	26%	28%
Blockchain and cryptocurrency	24%	27%	28%	19%
Energy and cleantech	23%	26%	18%	26%
Financial services, banking, and insurance (including Fintech)	22%	33%	16%	23%
Accounting, tax, and auditing	22%	26%	20%	20%
Agriculture and foodtech	20%	26%	19%	17%
Consumer goods and services	19%	22%	19%	18%
Healthcare and life sciences	19%	33%	16%	14%
Pharmaceuticals and biotechnology	17%	14%	17%	18%
Retail and e-commerce	16%	18%	19%	14%

Q3. Which industries do you think will see the most disruption over the next 18 months? Please choose all that apply. (Base: Total, n=301)

Within the technology sector, investors believe that AI, machine learning, and big data are, by far, the most likely to receive investments over the next 18 months. To a somewhat lesser degree, 5G and advanced connectivity and blockchain/cryptocurrency are also seen as more likely to see investment.

Technologies expected to receive most investment activity

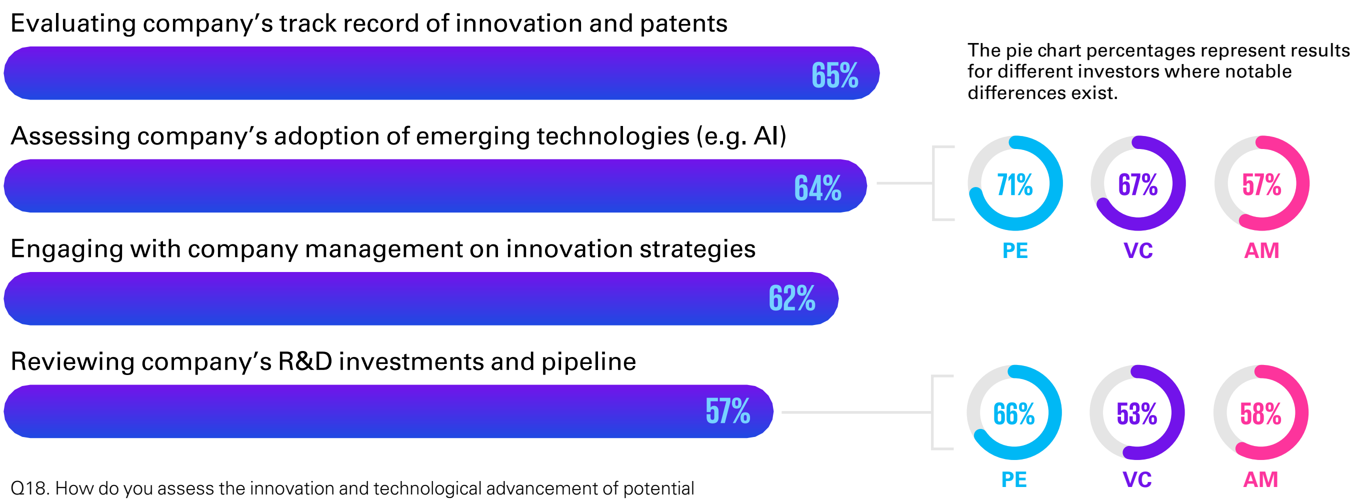


Q20. Which of the following reporting metrics are important to your investment decisions? Select all that apply. (Base: Total, n=301)

Investors consider multiple metrics when assessing a company's innovation and technological advancement capabilities.

This is primarily achieved by evaluating a company's track record of innovation and patents or assessing their adoption of emerging technologies. Private equity firms are more focused on technology adoption and R&D investments and pipeline than others. The latter may be more important to private equity firms because they are often buying a majority stake or buying companies outright, so they are essentially also buying the existing technology and pipeline, which are critical for future growth.

Strategies for assessing innovation and technological advancement



Q18. How do you assess the innovation and technological advancement of potential investment opportunities? Select all that apply. (Base: Total, n=301)

Beyond the financials: Investing in private companies

Investors consider several factors in assessing the disruption, market position, and competitive advantage of private company investment opportunities.

More than half (52%) of investors say they assess the disruptive and competitive nature of investments by evaluating technological capabilities and innovation pipeline.

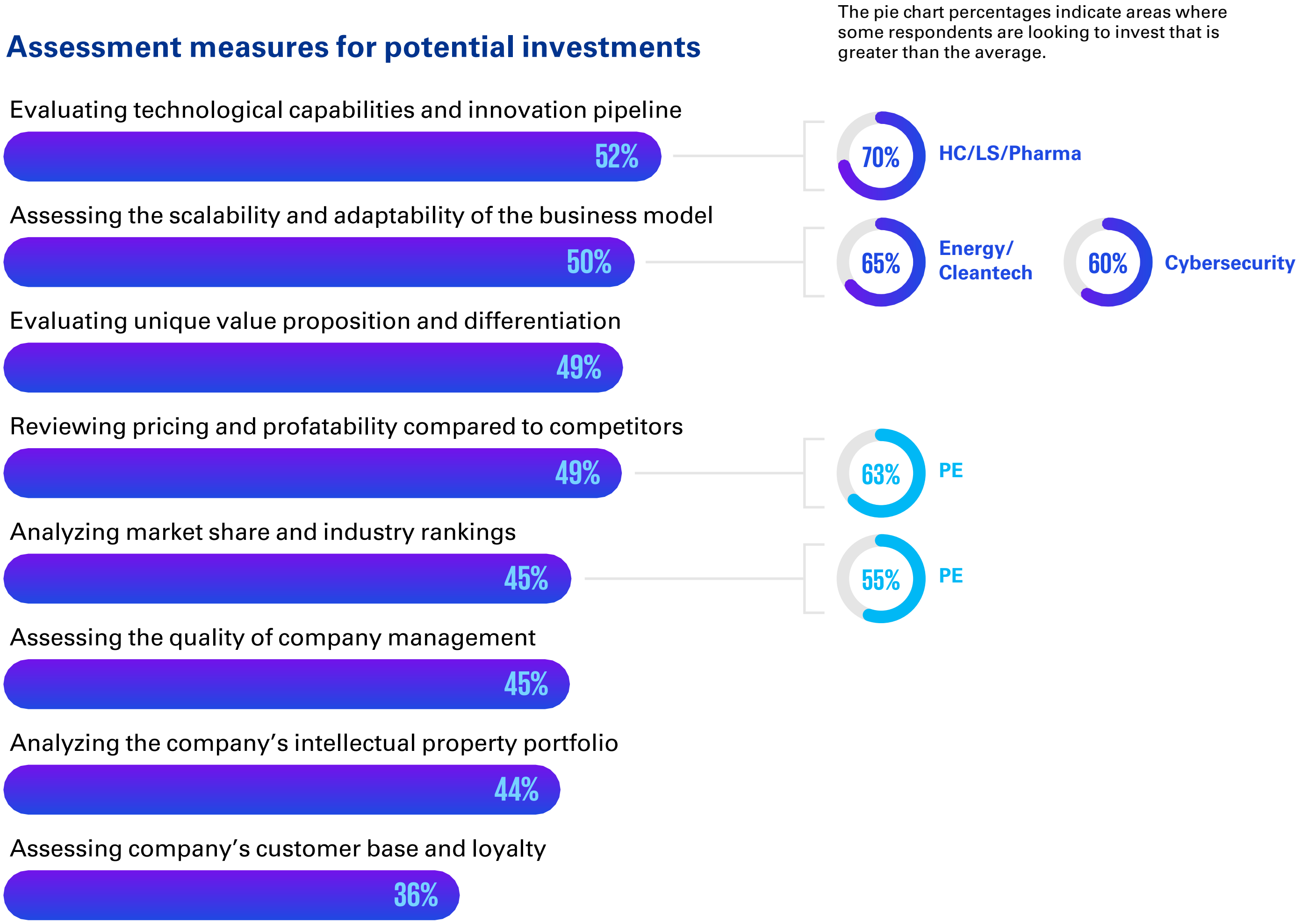
Half of investors (50%) say they rely on assessments of a company's scalability, adaptability, value proposition, differentiation, and profitability relative to competitors. In an environment where nearly every sector is being reshaped by rapid technological change, these factors are critical indicators of long-term success and resilience.

Technological capabilities and innovation pipeline are particularly important in healthcare and life sciences and the pharmaceutical/biotechnology sectors.

Scalability and adaptability of the business model are particularly important in the energy/cleantech and cybersecurity sectors, where companies must navigate not only rapidly evolving technologies, but also shifting regulatory landscapes and changing market demands. In clean energy specifically, growth is further constrained by dependence on infrastructure and the built environment, making scalability and adaptability even more challenging—and critical—for success.

Private equity firms are more focused on pricing and profitability and analyzing market share and industry rankings than other investors. This is likely because they are more focused on established companies in stable industries with established cash flows than others. They also are more likely to own a majority share of, or own outright companies they invest in.

Assessment measures for potential investments



Q4. How do you assess disruption, market position and competitive advantage of potential investment opportunities? Select all that apply. (Base: Total, n=301)

Investors are largely split on whether they place more importance on company founders or company concept when investing. One-third (32%) say that founders and company/concept are equally important in their investment decisions. Almost four in ten (38%) say the company concept is more important, while one-third (31%) say the founders are more important.

Importance of founders versus company/concept

Founder(s) are significantly more important than the company/concept

20%

Founder(s) are somewhat more important than the company/concept

11%

31% say that founders are more important

Founder(s) and company/concept are equally important

32%

Company/concept is somewhat more important than the founder(s)

21%

Company/concept is significantly more important than the founder(s)

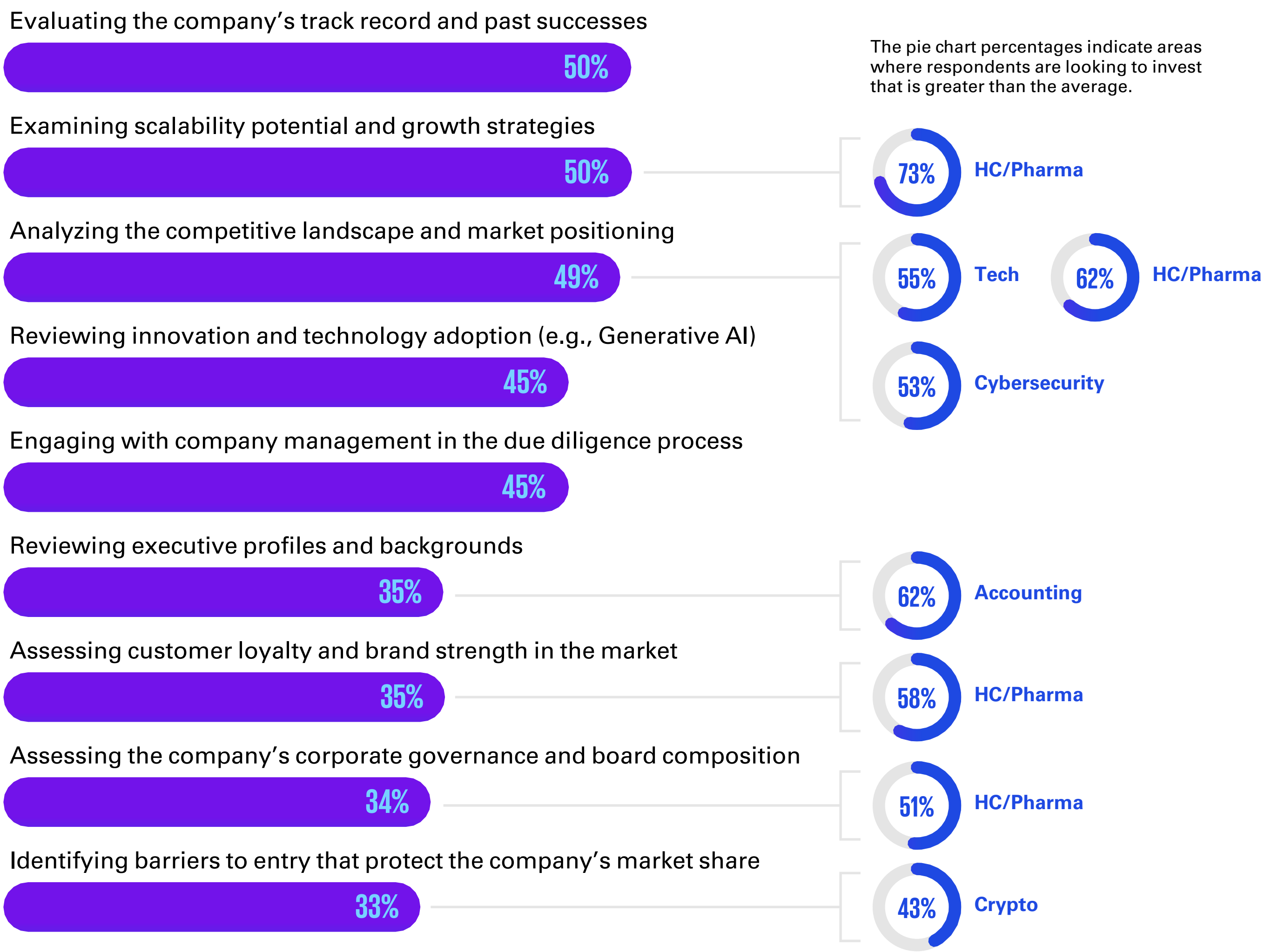
17%

38% say that company/ concept is more important

Q7. When considering an investment, how do you weigh the importance of the founder(s) compared to the company/concept? (Base: Total, n=301)

When assessing management success in scaling, deploying or disrupting their sector, investors mostly rely on evaluating past successes, examining scalability potential and growth strategies, and competitive landscape and market positioning.

Strategies for assessing company management capabilities



Q19. How do you assess if management/leadership has successfully scaled, deployed, or disrupted their sector? Select all that apply. (Base: Total, n=301)

*The only significant difference among investor types is venture capitalists who are more likely to say scalability and growth strategies (59%).

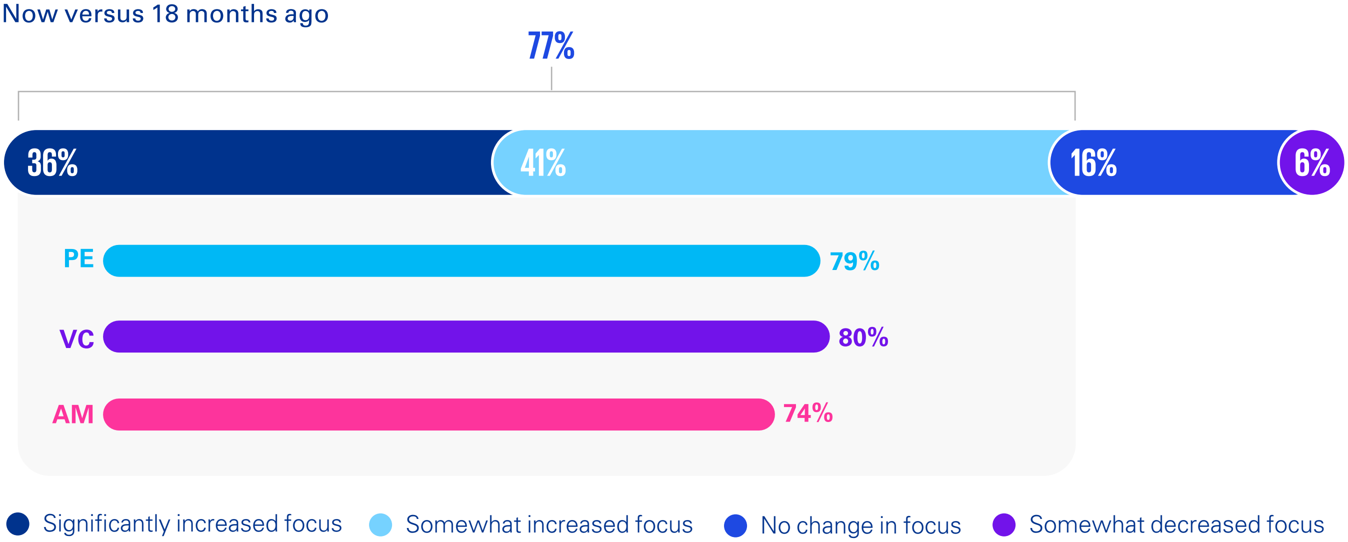
Top considerations in investment strategies

Effective governance is essential for ensuring the reliability and accuracy of financial statements, which investors rely on to make informed decisions.

Given current economic, geopolitical and regulatory uncertainty, it is not surprising that more than three-fourths (77%) of investors say their focus on governance has increased over the past 18 months, with over one-third (36%) saying it has increased significantly.

Focus on governance in investment decisions

Now versus 18 months ago



Q14. How has your focus on governance in investment decisions changes over the past 18 months, particularly considering expanding regulations covering large groups under common control? (Base: Total, n=301)

Strong governance in financial reporting plays a critical role in building investor confidence. It helps companies mitigate the risks of material misstatements and fraud while enhancing transparency and accountability throughout the audit process. Effective governance not only supports regulatory compliance but also strengthens trust with investors and other stakeholders driving better market reputation and greater investment interest.

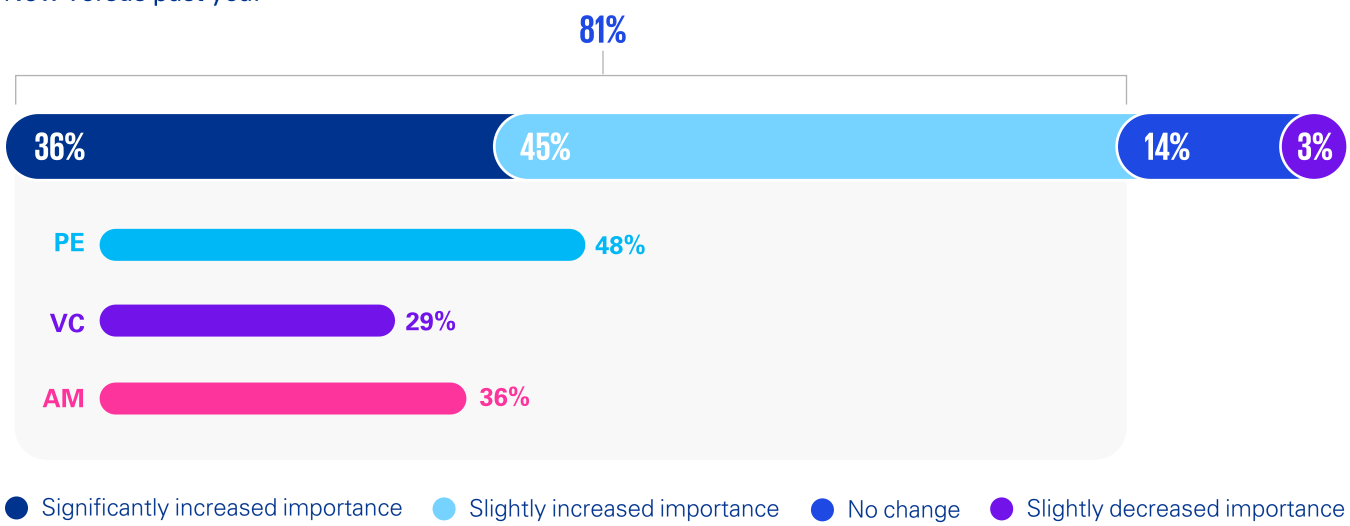
For private companies with fewer regulatory requirements, governance is crucial for attracting funding and investors. Investors rely on trustworthy information when making investment decisions, and strong governance ensures the accuracy and reliability of this information.This, in turn, helps mitigate risks and concerns such as overvaluation.

Cybersecurity is also of great concern to investors – both from assessing risks in their portfolios to how founders are implementing data security measures. Over the past year, cybersecurity and reporting of data protection measures have become much more important to investors, falling under the rubric of governance.

Eight in ten investors (81%) say that this area of reporting has become more important in their investment decision making (36% indicate "significantly" more important). Private equity firms find cybersecurity and data protection even more important than others, as they are more likely to invest in financial services and fintech than other firms, an industry with a keen concern about cybersecurity and data privacy.

Importance of cybersecurity and data protection reporting measures

Now versus past year



Q21. How has the importance of cybersecurity and data protection measures reporting changed in your investment decision-making over the past year? (Base: Total, n=301)

Similarly, as AI becomes more prevalent across investment portfolios and within companies, evaluation of AI governance measures is becoming increasingly important.

Given the lack of regulations on the use of AI, companies are beginning to establish frameworks, policies, and oversight mechanisms to ensure the ethical, safe and responsible deployment of AI technologies, including addressing risks such as privacy infringement, bias, and misuse. There are already entities establishing frameworks for governance of AI.

This is consistent with the KPMG survey of private companies last summer, where cybersecurity was seen as the most relevant for reporting or for disclosures beyond financial statements. Two-thirds (66%) said cybersecurity risk reporting is very relevant; ethical use of AI was not far behind (61%).

And companies are already starting to act on AI. In the same survey, more than half of private companies say they have implemented at least adequate AI risk and compliance oversight (54%) but only about a quarter (23%) say their risk compliance efforts are proactive and robust.

The need to responsibly deploy AI is similarly increasing the focus on cybersecurity.

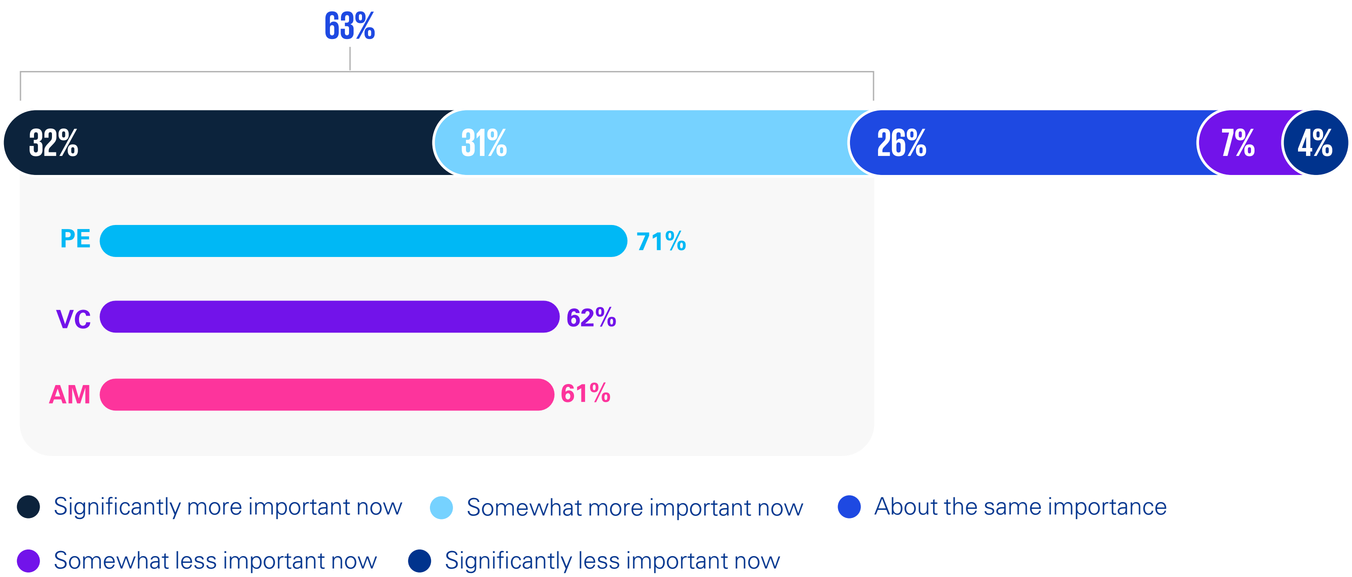
AI deployment can be a double-edged sword. While more than half of investors (52%) think their portfolio companies will implement AI in cybersecurity measures in the next year, AI is also seen as a cybersecurity threat, as bad actors can potentially utilize AI to breach systems and cause other harm to companies. For some, AI is also a concern in terms of data security and consumer privacy in general.

Despite recent rollback of government regulations, sustainability continues to be important in investment decisions.

Nearly two-thirds (63%) of investors say sustainability initiatives and carbon emissions reduction are more important now compared to 18 months ago in their investment decisions, with one-third (32%) saying sustainability is significantly more important now.

Impact of sustainability measures on investment decision making

Now versus 18 months ago



Q13. How has the importance of sustainability initiatives and carbon emissions reduction in your investment decision-making process changed compared to 18 months ago? (Base: Total, n=301)

Continued attention to sustainability in investment decisions is likely a result of many factors.

First, while the US has seen a shift toward fewer regulations on carbon reduction efforts, Europe continues to have stringent regulations, which already create reporting challenges for companies that operate globally. Companies with robust sustainability efforts will be able to remain competitive in international markets.

Second, there continues to be market demand for sustainable investments and there is consumer and social activism with a preference for sustainably produced products and services.

Third, investors likely see companies with robust sustainability initiatives better positioned for long-term growth and success.

Finally, as a corollary, many investors and companies acknowledge climate change as a material risk to business operations with extreme weather events and other climate related issues impacting business operations and supply chains.

Driving strategic investor engagement

For private companies seeking investment, clear, transparent, and strategic communication is critical to attracting and maintaining investor confidence. Investors evaluate a wide range of factors beyond financial performance, and companies that effectively articulate their strengths and future potential are more likely to secure funding.

Key areas private companies should focus on when engaging with investors include:

Realistic growth projections

Provide clear and detailed revenue models and profitability expectations. Avoid overly optimistic projections and demonstrate a track record of financial discipline.

Scalability and market opportunity

Highlight the company's potential for market expansion and competitive differentiation. Showcase data on industry trends, target market size, and customer acquisition strategies.future projections, which may not materialize.

Risk management and governance

Demonstrate strong corporate governance, leadership expertise, and risk mitigation strategies, particularly in the areas of financial reporting, cybersecurity, and regulatory compliance. Appropriate use of AI is an emerging governance issue.

Innovation and technology adoption

Explain how the company leverages emerging technologies, particularly AI, to drive growth. Highlight intellectual property, R&D investments, and competitive advantages in innovation.

Sustainability

Communicate sustainability efforts and long-term environmental goals with a focus on tangible actions that go beyond a box-checking exercise to appease investors and other stakeholders.

By effectively communicating these factors, private companies can strengthen investor confidence, differentiate themselves in a competitive market, and secure the capital needed for sustainable growth.

Conclusion

As the investment landscape for private companies continues to evolve, financial performance, technological innovation, and governance remain central to investor decision-making. While investors are eager to capitalize on high-growth opportunities, concerns about valuation, economic uncertainty, cybersecurity threats, and regulatory changes highlight the risks associated with private company investments.

Technology, particularly AI, is emerging as both a driver of growth and a source of disruption. Meanwhile, governance and cybersecurity have gained heightened importance as investors seek transparency, risk mitigation, and long-term stability. Sustainability considerations are also becoming a key differentiator, influencing investment strategies and competitive positioning.

As economic and technological landscapes shift, continued research will be critical to tracking investor sentiment and identifying emerging trends. Future surveys will further explore how investors adapt to new challenges and opportunities in private company investments.

Contact us

Additional report contributors

John Ebner
Partner, Audit

Deirdre Fortune
Global Head of Asset Management Tax,
KPMG International, and National Tax Leader –
Public Investment Management

Gavin Geminder
US Head of Advisory for Private Equity

Matt Giordano
US Industry Leader – Public Investment Management

Conor Moore
Global Head of KPMG Private Enterprise,
KPMG International, and Head of KPMG
Private Enterprise

Tracey Spivey
Partner, Tax

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